



USAID
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KYRGYZ REPUBLIC

USAID Business Growth Initiative (BGI)

Year 1, Third Quarterly Report

Second Quarter 2015

July 30, 2015

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USAID Business Growth Initiative (BGI) Year 1, Third Quarterly Report Second Quarter 2015

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1. Summary of Activities and Major Accomplishments during Q2 2015

During the second quarter of 2015, BGI achieved the following key project results:

Parliamentary Passage of the Air Code. On June 29, the Parliament of the Kyrgyz Republic passed the new Air Code that now brings Kyrgyz civil aviation primary legislation in line with international standards. The BGI team, including Kalikova & Associates, the Civil Aviation Agency (CAA), and the Association of Civil Aviation Enterprises, worked diligently with members of the Government and the Parliament to advocate its passage. The Cabinet of Ministers had previously endorsed the legislation unanimously on June 12. Mr. Jusupali Isaev, Chairman of the Parliamentary Committee on Transport, Communication, Architecture and Construction, who presented the legislation to the General Assembly, emphasized that the Committee and all five Parliamentary factions approved the draft Air Code. The Air Code passed by a vote of 106-2 and the draft Law of the Kyrgyz Republic, “On Enactment of the Air Code of the Kyrgyz Republic,” passed by a vote of 107-1. Over the coming year, BGI will help the CAA harmonize international aviation rules with Kyrgyz legislation, implement effective document management systems and adjust its organizational structure and qualifications for staff positions to meet international standards. To the degree possible, BGI will expedite this work to be well-positioned for the International Civil Aviation Organization (ICAO) audit in January 2016. A strong showing in the audit would bolster the Kyrgyz Republic's case for lifting a ban on flights to the European Union.

Changes in National Bank Prudential Regulations. In June, the board of the National Bank of the Kyrgyz Republic (NBK) approved changes to its prudential regulations on credit risk management, asset classification and loan loss reserve requirements to discontinue the use of real estate to collateralize short-term working capital loans. Begun under USAID’s Local Development Program (LDP), BGI revived the project in January to help the NBK introduce regulatory changes that would enable banks to use purchase orders or sales contracts to back-stop loans of up to one year. This promotes greater access to finance for firms lacking real property to obtain working capital loans. BGI will now begin to work with partner banks to help them roll out the purchase order finance (POF) product to small and medium enterprises, particularly those in the apparel, tourism and construction materials sectors.

Passage of the Law to Simplify Registration and Liquidation Procedures for Businesses. On June 1, the President signed the Law “On Amendments and Additions to Certain Legislative Acts of the KR” to simplify the registration and liquidation procedures for businesses. Passed by Parliament on April 23, the law was developed by Kalikova & Associates under a grant issued by the REFORMA Project. The law simplifies the registration and liquidation procedures of legal entities and individual entrepreneurs through amendments to the Tax Code, Civil Code, Law on State Registration of Businesses, the Law on Accounting and others. The law reduces the list of necessary documents for registration and liquidation, eliminates duplicative functions performed by various government bodies, reduces the timeline for review of liquidation documents, establishes a clear timeline for conducting non-scheduled tax audits during the liquidation process, and sets a timeline for conducting inspections by the Social Fund during liquidation, thus removing burdensome administrative barriers for businesses. For the registration of individual entrepreneurs and farm entities, the law transfers registration responsibilities from the National Statistics Committee to the State Tax Service, effective January 1, 2016. To provide assistance in implementation of the registration of individual entrepreneurs, BGI announced a tender for providing legal and administrative assistance to the STS to help it introduce new procedures for registration.

Finalization of Apparel Value Chain Activities. On April 29, BGI unveiled its strategy to support the Kyrgyz apparel sector based on the results of meetings with Russian apparel brands, Kazakh apparel retailers, and Chinese wholesale suppliers of fabric, as well as the results of the detailed value chain study undertaken by Central Asia International Consulting (CAIC). A foundation of BGI’s support will

be to provide highly customized and sustained firm-level assistance to a select group of apparel producers, based on the application and submission of business plans that demonstrate strategic vision for future growth. After achieving results with BGI assistance, these firms will, in turn, demonstrate to sector peers how they successfully moved from informal bazaar sales to formal sales to retail chains by reducing production costs and improving fabric and production quality. By the submission deadline on June 8, BGI received 23 applications from apparel makers who want to participate in the program. BGI will select winning firms in July, which will be followed by a gap assessment and finalization of work plans with the selected companies. To help small firms continue to compete in traditional bazaar markets, BGI also solicited requests for applications to entrepreneurs who want to receive assistance for creating apparel innovation centers to supply outsourced services to apparel workshops. BGI will select innovation center winners in August.

BGI Success Story in the Apparel Sector. An apparel maker that has been working with BGI for the past few months has fulfilled its first shipment of men's suits to a medium-sized Russian retailer. The firm participated in BGI's buyer-seller exhibition in February that resulted in the retailer's interest in placing orders with Kyrgyz apparel makers following a buying trip immediately after the exhibition. The retailer placed an order with this apparel firm for three intakes of more than 19,000 pieces valued at over \$600,000. Due to this new market opening, the firm expects sales to increase 25% this year, an impressive result in a sector experiencing decline. The owner said that he has never worked with technical assistance projects because he previously did not see the value in doing so. In addition, the Russian retailer is currently negotiating with a second Kyrgyz apparel supplier. BGI will continue to support this firm and others with advanced manufacturing, management, and other technical assistance that help companies grow and create much needed new jobs.

Selection of Destination Management Programs in Tourism. In June, BGI announced the four tourist destinations selected to receive assistance under the project's destination development program. Chosen through a highly competitive process, these destinations will receive various forms of assistance to implement tourism development strategies proposed by consortia of local stakeholders. Proposals have included activities such as tourism product and service development, improvement of light infrastructure and signage, marketing and promotion campaigns, and others. The winners are: (1) Karakol Riverpark Consortium in Issyk-Kul oblast; (2) Burana Consortium, CSR Central Asia, in Chui oblast; (3) Osh Silk Road Consortium, Osh Travel, in Osh oblast; and (4) Jyrgalan Consortium in Issyk-Kul oblast. BGI selected these proposals from 53 applications for diverse projects from stakeholder groups representing every region of the Kyrgyz Republic. After inviting 11 shortlisted candidates to make oral presentations to a five-member evaluation committee, the BGI tourism development team and independent experts selected the four initial winners to receive support for implementing their destination management plans.

2. Challenges and Risks to Project Implementation

By far the largest challenge and risk that BGI faces right now relates to the future of USAID programming relative to the Government of the Kyrgyz Republic's unilateral termination of the 1993 bilateral agreement with the United States Government. As USAID is well aware, this places all future USAID programming at risk, including the delivery of the BGI Project. BGI is awaiting USAID's resolution of this diplomatic issue.

In the meantime, the pending Parliamentary elections in the Kyrgyz Republic also threaten to delay pending legislation this coming autumn until a new Parliament is formed after the elections, scheduled for October 4, 2015. Currently, BGI has several pieces of legislation that were pending as of June 30, at which time the Parliament took its two-month summer recess.

Results of Parliamentary elections will also affect the formation of a new Government following the results of the elections, which will likely have some impact on BGI's current relationships with Government counterparts. The most recent casualty of pre-election political gamesmanship has been termination of the current Director of the Civil Aviation Agency, with whom BGI/REFORMA has worked for the past 16 months. The impact of this termination on the BGI program has yet to be

determined. Likewise, other changes within the leadership of ministries and agencies may also have an impact on the completion of planned BGI activities, particularly during this upcoming period of electoral uncertainty.

Other potential issue that has and will continue to have an impact on the performance of the BGI project is the macroeconomic position of one of Kyrgyzstan's primary trading partners, the Russian Federation. This has taken several forms including a slowdown in the purchase of Kyrgyz apparel and devaluation of the ruble, which has put pressure on the value of the som. Likewise, Russia's recession is affecting the flow of remittances into Kyrgyzstan from migrants, who have been fueling the construction boom in the country, particularly in Bishkek. The slowdown in new building starts will affect the development and growth of BGI's selected construction materials sector, although the extent of the possible impact is currently unclear.

A previously identified constraint – delay in USAID's approval of BGI's Project Fund Manual – has now been resolved. With this approval, BGI will now launch its grants program in September.

3. Progress of Activities for Selected Value Chains

Textile/Apparel Value Chain

BGI's Activities in Q2 2015

Presentation of Comprehensive Value Chain Study and Future Work Plan (*BGI Work Plan Apparel VC, Activity 1*)

On April 29, BGI unveiled its strategy to support the Kyrgyz apparel sector to address competitive challenges within the rapidly changing Russian and global clothing markets. Based on the results of meetings with Russian apparel brands, Kazakh apparel retailers, and Chinese wholesale suppliers of fabric, BGI formulated its strategy to stimulate systemic change in how Kyrgyz clothing producers respond to evolving opportunities and sector competitive threats. To better understand the current structure of the Kyrgyz apparel sector, BGI also drew upon the results of a detailed value chain study undertaken by BGI's subcontractor, Central Asia International Consulting (CAIC), during the first quarter of 2015.

A foundation of BGI's support will be to provide highly customized and sustained firm-level assistance to a select group of apparel producers (5-10), based on the application and submission of business plans that demonstrate strategic vision for future growth. Those applicants not selected for the front-runner group but who are clearly leading Kyrgyz apparel firms will also receive limited assistance through trade fair exhibitions, limited coaching, and others. After these "front-runner" firms achieve results with BGI assistance, these firms will, in turn, demonstrate to "leaders" how to find and supply new buyers, reduce production costs, improve quality, and build strategies that will help them make the transition required to serve increasingly demanding customers. They will also encourage them to enter the general or simplified tax regime, transact business through banking channels, seek EAEU technical standards certification, and other components required to expand into the retail chain market. BGI will establish a regularly scheduled business-to-business forum called the "Innovation Club," comprised of both groups of apparel makers, as the mechanism through which front-runners will transfer their newly acquired knowledge and skills.

To help prospective applicants develop their plans, in May BGI offered business planning workshops with an emphasis on contract manufacturing and brand development, two strategic models that have been successful for competing in global apparel markets. By the submission deadline on June 8, BGI received 23 applications from apparel makers who want to participate in the program. BGI will select winning firms in July, which will be followed by a gap assessment and finalization of work plans with the selected companies.

To help small firms continue to compete in traditional bazaar markets, BGI also offered a workshop in June to entrepreneurs who want to receive assistance for creating apparel “Innovation Centers” to supply outsourced services to small apparel workshops. These services may provide access to specialized equipment, apparel design, or other services that would improve product quality, reduce production costs and enable expansion of product lines. Ideally, Innovation Centers would be co-located with the numerous apparel workshops occupying former Soviet factories. BGI will select innovation center winners in August.

Keqiao Textile Fair in China (*BGI Contract, Apparel Section, Activity 3*)

In May, BGI supported three apparel companies with pending Russian sales contracts (Zorin, Panin and Olga Classic Style) to expand their source of fabric supply beyond the traditional wholesale purchase of fabrics in the Madina bazaar in Bishkek. Since fabric prices consume roughly 50 percent of the production cost of a garment, these apparel makers have found that cutting fabric costs while increasing use of higher-quality fabrics is critical to break into the supply chain for Russian apparel brands. These pending sales contracts resulted from BGI’s Tekstilegprom event in Moscow in February that introduced Kyrgyz producers to Russian chain retailers.

BGI sponsored participation in a key international exhibition of textiles, yarn and accessories, the Keqiao Textile Expo 2015, which took place May 6-8, just outside of Shanghai. In addition to textiles, the exposition exhibited textile and apparel-making machinery and equipment for knitting, sewing and dyeing garments and fabrics. The Kyrgyz logistics firm, Inter Asia Trade, helped BGI to organize the trip. Keqiao itself is a famous center for the wholesale trade of textile products. In addition to visiting the exhibition, BGI and Kyrgyz companies observed Keqiao’s year-round markets and wholesale centers and also visited Yiwu – known throughout China as the center for wholesale supply of hardware and accessories for garments.

By identifying alternative sources of supply, it is anticipated that companies will be able to save 10-15 percent of production input costs, which will help them to become more competitive in the Russian market and in other countries. A wider source of supply will help them to expand their product lines and improve product quality and variety by using better fabrics at cheaper prices, and pass these reduced prices on to customers. It will help them bring production costs to a level at which they can conclude manufacturing contracts with Russian brands, whose wholesale price points have been lower than the best prices offered by Kyrgyz producers. These savings will also generate greater margins for producers to spend on marketing, brand promotion and other costs of business expansion, including formalization.

Sponsorship of Fashion Design Competition (*BGI Contract, Apparel, Activity 4*)

More than 50 Kyrgyz fashion designers, many of them students and young people, presented their collections at a fashion show competition that coincided with the 10th anniversary of the Association of Light Industry of the Kyrgyz Republic (Legprom) from June 11-15. As general sponsor of the competition, BGI provided a forum to display Kyrgyz design talent and award winners in the *Professional Designer* and *Young Designer* categories. Show organizers received more than 70 applications to participate, of which they selected the 52 best collections. The awards jury consisted of both national and international fashion industry experts and leading designers. BGI sponsored the competition to promote the further development of talented students, young fashion designers and design professionals because they will play a key role in strengthening the competitive position of domestic garment manufacturers in the CIS regional markets in the future.

Fred Levitan, head of BGI’s value chain component, presented certificates to the two grand prize winners, who now have the opportunity to represent Kyrgyzstan at designers’ competitions this fall in Moscow. Professional designer Aysana Abdrasulova received the grand prize for her product line, *Solar Nostalgie*, and will now take her collection to the *Russian Fashion – 2015* competition. Ilzara Kombarova won the young designer prize for her collection, *Azari*, and will compete in the *Exercice* competition dedicated to showcasing young talent.

BGI also supported the week-long gala by sponsoring a training workshop entitled *"The DNA of clothing brands in the fashion industry,"* conducted by Andrei Burmatikov, an expert in the Russian fashion industry. During the seminar, participants examined commercial trends in the development of merchandise collections and learned how to improve marketing strategies based on the specifics of the Russian apparel market. More than 40 representatives of clothing and knitwear companies attended the workshop.

Jonathan Stivers Tour of Dordoi Bazaar

BGI hosted a tour of Dordoi bazaar for the Assistant Administrator of USAID's Asia Bureau, Mr. Jonathan Stivers, the senior USAID executive for assistance to 32 Asian countries. On his circuit through Central Asia in April, Mr. Stivers sought to meet not only with USAID mission and project staff, but also with entrepreneurs and representatives of Kyrgyz business. BGI's focus on the apparel value chain and the role that Dordoi has played in fueling sector growth compelled him to visit the market as part of his Bishkek tour.

Ms. Lubov Ardamina, head of a Kyrgyz knitwear company, escorted the USAID party to the wholesale containers of several leading apparel firms, including Olga Classic Style, Alinex, and Larisa Fashion. At the Larisa container, the group interviewed owner Larisa Popkova as well as the heads of Diva Style and E-Line Moda. USAID Mission Director Michael Greene and Deputy Mission Director Nate Park were among those touring the market.

In addition to the bazaar tour, BGI hosted a round table for Mr. Stivers to meet representatives of other business sectors. Executive directors of the Chamber of Tax Consultants, the Association of Markets, the Association of Young Entrepreneurs, and Bishkek Business Club offered views on the current business climate and perspectives on the impact of the Kyrgyz Republic's accession to the Eurasian Economic Union.

New BGI Initiatives Planned for Q3 2015

Development of Formalization Strategy for the Apparel Sector (BGI Contract, Apparel, Activity 2)

Over the past few months, BGI has learned many valuable lessons, especially in understanding market realities in Russia and Kazakhstan. BGI learned that there is substantial market demand especially in Russia, but to supply this market requires a fully integrated approach that combines improvement in workforce skills and the overall productivity of manufacturers with changes in the way firms do business. Of particular importance is helping firms transition from the current patent-based tax regime to one that supports business expansion and the conclusion of international contracts. Consequently, BGI selected a local legal and tax advisor to study the tax policy environment and develop proposals to present to the Government to enable firms to transition away from the existing tax patent regime. A new tax regime would enable apparel companies to conclude sales contracts with brands and large customers in Russia, Kazakhstan and other countries.

Selection of Front-Runners/Leaders and Conduct of Gap Analysis (BGI Contract, Apparel, Activity 6)

In July, BGI will select a group of Kyrgyz apparel company "front-runners" (5-10) that will receive highly customized firm level assistance based on the validity of submitted business plans that are a requirement of BGI's selection process. The apparel value chain team will work with international apparel experts in production and marketing/sales to fully verify the needs of the select apparel companies. The team will then develop and prepare detailed work plans that will be used to implement a series of comprehensive interventions that will combine tailored production and marketing advice with tangible equipment and other materials, as warranted, over the next year that are designed to increase the long-term competitiveness of these firms in different product lines and geographic markets. In addition,

BGI will select and collaborate with another subset of progressive apparel company “leaders” that will receive more limited, yet intensive, types of capacity development in various aspects of production and marketing/sales.

Selection of Innovation Centers (*BGI Contract, Apparel, Activity 5*)

BGI will also select private sector partners for the Innovation Centers during the third quarter that will be able to offer a range of affordable production, design, and other services to small companies. The Innovation Centers will provide technical services directly to the small companies to enable them to produce and sell new products that will, in turn, help them find new customers, produce higher-quality garments, and increase the number and size of orders. BGI expects initially to select two entrepreneurs, whom we will assist to launch enterprises designed to provide these outsourcing services. Once selected, BGI will engage a consultant to assist these firms develop viable business plans and pro forma financial statements beyond that which they submitted for application.

Tourism Value Chain

BGI's Activities in Q2 2015

Selection of Destination Management Sites (*BGI Work Plan Tourism, Activity 1*)

BGI selected four tourist destinations across the Kyrgyz Republic to receive assistance under the project's destination development program. Chosen through a highly competitive process, these destinations will receive various forms of assistance to implement tourism development strategies proposed by consortia of local stakeholders.

The winners of BGI's Destination Management Program are:

- **Karakol Riverpark Consortium, Issyk-Kul Oblast** – Improve riverfront property, organize and promote cultural festivals, market and promote activities;
- **Burana Consortium, CSR Central Asia, Chui Oblast** – Improve signage, sanitation, experiences for visitors to this 9th century religious monument;
- **Osh Silk Road Consortium, Osh Travel, Osh Oblast** – Develop signage and product and service delivery of accommodations along this segment of the Silk Road;
- **Jyrgalan Consortium, Issyk-Kul Oblast** – Conduct promotional activities and upgrade light infrastructure and guesthouses surrounding a nascent winter sports area, 50 kilometers from Karakol.

BGI selected these proposals from more than 50 applications for diverse projects from stakeholder groups representing every region of the Kyrgyz Republic. After inviting 11 shortlisted candidates to make oral presentations to a five-member evaluation committee, the BGI tourism development team and independent experts selected the four initial winners to receive support for implementing their destination management plans.

Based on submitted applications, BGI will finalize first year development plans with consortia in July and August with the assistance of Augusto Huescar, an international tourism expert in destination management programs. Following the completion of these programs, BGI will support the consortia in presenting their development plans to their communities in September. At the same time, BGI will identify and determine USAID's environment compliance requirements for proposed destination management activities and finalize the project's environmental compliance processes for the duration of the project.

Baseline Study for Improving the Collection of Tourism Statistics (*BGI Work Plan Tourism, Activity 3*)

In April, BGI launched an activity to improve the quality and reliability of tourism statistics in the Kyrgyz Republic. BGI mobilized international advisor, Vladimir Markhonko, to introduce and implement international/UNWTO best practices/recommendations for the collection and reporting of tourism statistics. Ms. Nurjan Toktogulova, a local consultant, worked with Mr. Markhonko to adopt locally based solutions at each stage. The project will strengthen the level of collaboration between the National Statistics Committee (NSC), the Border Service, and other Government. While NSC staff has mathematical capacity, they lack the critical thinking capacity required for producing and analyzing meaningful statistics. The project will improve the analytical capacity of the NSC as well as enhance the presentation of tourism statistics through improved website features for better use by both the public and private sectors in business planning. The first phase of the project is expected to last six months.

Mr. Markhonko's research identified that, despite the availability of a large number of supply-side statistics – number of hotels, guest houses, beds, restaurants and the supply of other services – the accuracy of much of this data is questionable. Research also found that the Kyrgyz Republic collects very little data on the demand side. This is primarily because it is significantly more challenging – and costly – to collect information from tourists through surveys and other research instruments than through suppliers of goods and services. Additionally, the study found that institutional arrangements among data collection agencies could be strengthened and that developing standard definitions for tourism indicators would contribute significantly toward the collection and compilation of appropriately corresponding data.

Over the coming year, BGI will assist the NSC in implementing many of the study's priority recommendations to establish the foundation for improving the accuracy of collected data and strengthen communication among key agencies and their mechanisms for information exchange. The project will introduce internationally recommended standards for the collection and reporting of tourism statistics and help implement methodologies for gathering demand-side data to improve their use in business and strategic decision making. Initial activities are described below under the Launch of Activities to Improve Tourism Statistics.

New BGI Initiatives Planned for Q3 2015

Finalization of Destination Management Work Plans (*BGI Work Plan Tourism, Activity 1*)

In July-August, BGI will engage an international destination management professional, Augusto Huescar, to work with the four selected consortia to develop a comprehensive strategy and action plan for improving their destinations, based upon their destination management proposals submitted in May. He will travel with the tourism team to each of the destinations, providing workshops and training courses on how to develop and implement sustainable programs and collect data for monitoring the impact of the program on local development. These strategies and actions plans will be ready for distribution by the end of September. In the next quarterly report, BGI will report on the development activities of each of the four destinations relative to their strategies and action plans.

Launch of Activities to Improve Tourism Statistics (*BGI Work Plan Tourism VC, Activity 3*)

In the third and fourth quarters of 2015, BGI will begin implementation of the recommendations proposed by Vladimir Markhonko in his baseline study of the Kyrgyz Republic's collection of tourism statistics. He will:

- Prepare a draft of the revised methodological guidelines for tourism statistics in accordance with IRTS 2008 recommendations, including definition of the concepts and data variables describing tourism from the demand perspective, such as visitor, usual environment, economic territory, tourism trip as a statistical unit, tourism products, and tourism expenditure, all new concepts to the collection of tourism statistics in the Kyrgyz Republic;

- Prepare a draft of the revised methodological guidelines for tourism statistics in accordance with IRTS 2008 recommendations, including definition of the concepts and data variables describing tourism from the supply perspective, such as tourism products, tourism activities, tourism industries, and variables on output and employment;
- Prepare a draft questionnaire for use in a border sample survey of inbound and outbound visitors and draft guidelines on the organization of such surveys;
- Prepare an outline of a design of a limited tourism module for use in the existing household survey and a draft questionnaire for use in this module;
- Prepare a revised text of Article 1 “Basic concepts” of the Law on Tourism to align it with the internationally adopted concepts and definitions used in IRTS 2008 Deliverables;
- Explain the draft methodological guidelines for Kyrgyz Republic tourism statistics and provide additional training to the NSC staff on the UNWTO methodological standards of tourism statistics;
- Meet with individual members of the Interagency working group on tourism statistics to discuss their work plans related to Kyrgyz Republic tourism statistics and provide recommendations on their involvement in the compilation of tourism statistics in accordance with the revised methodological guidelines;
- Participate in a meeting of the Interagency working group on tourism statistics and provide recommendations on its multi-year work program.

Following these activities, BGI will work with Mr. Markhonko to identify next steps in improving the collection of tourism statistics in the Kyrgyz Republic.

Conducting a Baseline Survey of Destination Management Sites (*BGI Work Plan Tourism, Activity 1*)

In July, BGI will competitively select a market research firm to conduct surveys of tourists in the four selected destinations and the Lake Issyk-Kul resort community to provide baselines for measuring the impact of first year activities on tourism during the summer of 2016. The firm will conduct the survey in August during the height of the tourism season.

Launch of BGI’s Turkish Outbound Tourism Program (*BGI Work Plan Tourism, Activity 6*)

In the third quarter, BGI will launch its study to assess opportunities from the Turkish outbound tourism market. BGI believes that the Kyrgyz Republic can entice a substantial number of Turkish tourists to the cultural, historical, and religious tourist attractions that the Kyrgyz Republic has to offer. BGI will build upon strong historic, cultural, economic, and political ties between the Kyrgyz Republic and Turkey by creating a program to promote Kyrgyzstan as a tourist destination to the Turkish middle class. BGI’s approach will first examine demand in the Turkish outbound tourism market by analyzing various types of interests and expectations of Turkish tourists by pursuing three activities in the third quarter. First, BGI will issue a tender to local firms to conduct a desk study of the Turkish outbound tourism market, including monitoring internet blogs and social media. Next, BGI will send members of the tourism team to Turkey to interview numerous Turkish tour operators to identify the demands and preferences of their outbound tourists. The team will also work with Turkish business associations, TURSAB and the Turkish Tourism Investors Association. Finally, BGI will engage Geopoll, a US-based survey company, to conduct short surveys of 2,000 Turkish citizens through the primary Turkish cell phone operator. Once BGI has analyzed these findings, BGI will undertake a survey of existing tourism attractions in the Kyrgyz Republic to identify those that meet the preferences of Turkish tourism market segments. BGI will then develop a program to build upon these attractions, employing a destination development strategy, if necessary. Following this, BGI will develop and implement marketing/promotional initiatives targeted to identified market segments.

Participation in International and Regional Tourism Fairs *(BGI Work Plan Tourism, Activity 4)*

There are two major international tourism trade exhibitions conducted each year – the WTM London and the IBG Berlin. Kyrgyz tourism organizations, primarily the top few tour operators and Lake Issyk-Kul resorts, participate in the Kyrgyz booth, overseen by the Department of Tourism at the Ministry of Culture, Information and Tourism. Although the Tourism Department, in the past few years, has tried to improve the attractiveness of its booth at these exhibitions, Kyrgyzstan could significantly improve its booth by better coordination of private sector co-exhibitors and taking a lead in creating a more cohesive message and image for tourism promotion to the Kyrgyz Republic. The BGI team will travel to the World Travel Market (WTM) in London, November 2-5, 2015, primarily to obtain a better understanding of Kyrgyzstan's shortcomings in trade exhibiting, to develop a plan for improving the image of the Kyrgyz Republic, beginning at the ITB Berlin, in March 9-13, 2016. BGI will also determine the value of participating in a tourism exhibition scheduled in Astana in September.

Construction Materials Value Chain

BGI's Activities in Q2 2015

Completion of the Construction Materials Value Chain Study *(BGI Work Plan Construction Materials, Activity 1)*

The BGI team will complete the value chain study in early July. BGI had originally planned to conduct a presentation to stakeholders on the analysis and planned future activities to support value chain development in July, but due to vacation schedules of partners and counterparts, BGI decided to postpone the presentation until September. BGI will use the study to determine its overall sector development strategy for the next three years to enhance the competitiveness of Kyrgyzstan's construction materials industry cluster to take advantage of both domestic and regional construction spending patterns and strengthen linkages throughout the value chain so firms can expand and enhance production, increase productivity, hire more skilled labor for higher value-added production, and effectively market output to profitable accounts.

New BGI Initiatives Planned for Q3 2015

Launch of Selected Activities to Support Value Chain Development *(BGI Work Plan Construction Materials, Activity 1)*

BGI will present its construction materials value chain development approach to USAID in September 2015.

Gender/Youth

BGI's Activities in Q2 2015

Conduct a Baseline Gender and Youth Study *(BGI Work Plan Gender/Youth, Activity 1)*

BGI completed its gender and youth study in June, which confirmed our hypotheses regarding the issues surrounding gender and youth in the Kyrgyz Republic. BGI had utilized this study in developing its Second Year Work Plan for including gender and youth considerations in its overall programming.

Support of a Business Boot Camp for Youth Enterprise Startups *(BGI Contract, Gender/Youth, Activity 4)*

BGI has teamed up with the Business Clinic of Central Asia (BCCA) to host a 10-week training and business planning program for seven selected startup firms founded by Kyrgyz youth.

Selected from 40 applicants, these early-stage entrepreneurs will participate in classroom training and mentor and peer coaching while developing a complete business plan for launching their enterprises and prototypes of their initial product or service offerings. Each startup team will receive seed capital of US \$1,000 from BCCA. On August 18, teams will present their business plans to a group of potential Kyrgyz investors, some of whom may provide additional capital and continued coaching should they choose to invest.

BCCA is a for-profit business that began in 2013 to stimulate entrepreneurship among young people and identify potentially lucrative investment opportunities for their small capital fund. In 2014, BCCA pioneered the concept by sponsoring a six-week Boot Camp for four selected startups, three of which are still operating with funds initially provided by BCCA. Following this experience, the firm decided to provide a longer incubation period in 2015 and expand the number of enterprises selected for participation.

Startups participating in this year's Boot Camp largely plan to develop services delivered through the internet. They include an internet cosmetics store, an on-line cinema, a website offering temporary employment opportunities, internet sales of Kyrgyz handicrafts, an electronic platform for wholesale trade, and an online cleaning service.

New BGI Initiatives Planned for Q3 2015

Finalize Initial Activities to Support Gender and Youth (*BGI Work Plan, Gender/Youth Activity 1*)

In the third quarter, BGI will finalize its plans for pursuing activities supporting gender and youth dimensions in BGI's second year as outlined in the Second Year Work Plan.

4. Progress of Activities for Strengthening Human Capital

BGI's Activities in Q2 2015

Completion of the Study of the Demand and Supply of Value Chain Skills (*Work Plan Human Capital, Activity 1*)

The subcontracting firm, M-Vector, submitted its final report for acceptance in Russian and English on June 18, 2015. The following identifies the key findings of the study:

Tourism Value Chain. The study of supply and demand of skills undertaken by BGI is the first large scale study aimed specifically at identifying the skill gaps in the tourism sector's labor market. The study covered all 7 oblasts of the Kyrgyz Republic. The survey was conducted among representatives of educational institutions and employers. The team interviewed 31 heads and 25 instructors of educational institutions, and 291 managers and 100 employees working in the tourism sector.

The demand in the Kyrgyz tourism labor market is characterized by seasonality, high manpower shortage and turnover. Tour operators and travel agents experience the greatest shortage of employees because they require higher qualified personnel. More 70 percent of managers of tourism organizations have not participated in advanced training courses and neither has their staff. Managers see no point in building the capacity of their employees since they perceive a high chance that they will lose them to competitors or leave to work abroad. Unsurprisingly, the study revealed that large companies have a higher share of managers and other staff who attend advanced training. Among the most necessary skills that tour operators identified were communication skills and knowledge of numerous policies, processes and business operations including: safety procedures, tourism insurance rules, consular and visa services, topography and camping equipment, and how to deal effectively with hotels and other intermediaries. Hotel administrators noted the need for foreign language skills, advanced education, conflict resolution skills, and computer and technological skills. Cooks need to develop skills and knowledge related to preparation of national and international cuisine, nutrition, and etiquette.

On the supply side, the system of public secondary and higher vocational education (SVE and HVE) of the Kyrgyz Republic does not focus on the labor market demand. Both specialized secondary education institutions (SSEI) and higher education institutions (HEI) consider their prospective students/applicants to be their key consumers rather than employers. Accordingly, they channel all their efforts to attract students to increase enrollment. High school graduates and their parents, particularly, drive the high demand for HVE services. The services sector will always demand a greater number of non-professional staff, mainly due to the high turnover rate, migration, and attrition. The current number of the graduates of elementary vocational education (EVE) is insufficient to meet the demand on the part of employers.

Overall, analysis shows that the average annual demand is approximately 12,000 workers, while there are 4,000 young specialists graduating from the education institutions yearly.

Tourism-related skills development is offered by all three levels of educational institution: primary vocational education (PVE), middle vocational education (MVE) and higher vocational education (HVE).

- PVE 36 lyceums and two specialized vocational schools for inmates of prisons offer tourism and related programs. Tourism programs are offered by five lyceums (2 of them have the “Tourist Routes Guide” Major). Catering programs are offered by 29 lyceums and 1 vocational school. Seven lyceums and 1 vocational school have a “Crafts and Folk Art” program. The number of enrolled students in the fourth quarter of 2014 was 4,901.
- MVE: five colleges providing training in tourism-related occupations to 121 students.
- HVE: 12 universities offer educations in tourism services. As of February 2015, the number of students enrolled was 8,310, with the expected number of 2015 graduates of 2,826.

The study of skill gaps in tourism showed that there is a great shortage of qualified personnel in the labor market, while, at the same time, graduates in tourism-related services find employment upon graduation difficult. This gap seems to be caused by the lack of interaction between employers and educational institutions. The number of graduates of those educational institutions that regularly interact with the employers does not satisfy market needs, while graduates of other educational institutions must look for employment on their own, with limited practical skills. Overall, employers are reluctant to hire graduates so unemployed graduates have two options: migration or obtaining retraining for work in another sector.

Apparel Value Chain. The study of supply and demand of skills undertaken by BGI in the apparel sector aimed at identifying gaps in skills and knowledge in the industry and covered Bishkek and Osh cities, Chui, Jalal-Abad, Issyk-Kul and Osh oblasts. The survey was conducted among representatives of education institutions, employers and employees of apparel industry companies. In total, the team interviewed 376 employers, 205 employees, 41 educational institutions representatives and 26 instructors of educational institutions.

The demand for workers in the apparel sector is typically inconsistent throughout the year and directly depends on the workload of the companies. The survey showed that the primary reasons for shortage of workers in the apparel sector are low wages, poor labor conditions and seasonality of production. The turnover is mostly among seamstresses, cutters and pressers. The survey showed that the average company needs 9 seamstresses, 2 operators of sewing equipment, and 2 tailors during the season.

The survey found that employers seek two types of qualified workers: (1) versatile specialists, who can perform many different operations in the garment production process; and (2) highly qualified workers, who perform only 1-2 main functions (e.g., sewing). It found that the inability of sewing machines operators to be sufficiently skilled to operate a variety of machines and perform many operations functions to the required levels of quality and productivity significantly affects the profitability of apparel makers.

The majority of apparel firms do not have middle managers since owners to top managers perform most of the processes and functions outside of direct production. The study showed that the most number of company managers (41.5 percent) identified active sales skills as the most important skill set. Nevertheless, the survey found that most companies do not make significant investment in employing persons with these skills or improving the sales skills of existing staff. Other required skills mentioned by interviewees included human resource management skills. The survey showed that only 26 percent of company directors took attended professional training courses related to apparel production. Nevertheless, of these directors, the 67 percent evaluated these courses as useful. Only 9 percent of company directors sent employees for professional development training in the past three years, which were organized by international organizations, short-term courses at vocational schools, or private courses. Both managers and workers of large companies were more open to training and professional development activities, which appears to one of their success factors.

On the supply side, the lack of focus on labor market demand is also a problem with educational institutions in the apparel sector. The main supplier of workers for the apparel industry is the primary vocational education (PVE) system, which operates 68 vocational schools in Kyrgyzstan. Approximately 3,500 students graduate from vocational schools each year. In addition, roughly 300 specialists graduate from secondary vocational schools and higher educational professional institutions in the apparel sector.

The PVE system is characterized by high turnover of faculty and instructors mainly because of low salaries and the low prestige of the profession.

Educational institutions have low capacity to meet the needs of businesses. Overall, the quality of training in vocational schools and universities is low and the lack of communication and cooperation between educational institutions and business remains to be one of the greatest challenges. The rigidity of the education system in the Kyrgyz Republic makes curriculum changes difficult to change to meet employer requirements. Companies seek workers mostly through newspaper advertising and personal connections; they very seldom turn to education institutions for workforce supply. Employers and institutions cooperate seldom in the professional development of textile/apparel specialists and instructors. Employers with experience very seldom share their knowledge and skills with university or vocational school instructors. With the current sector slowdown, employers see little benefit to their involvement in the development of the professional education system. The majority of employers are unaware that education institutions produce workers with useful skills and report that education institutions do not understand their overall demand and need for particular skills.

There is a discrepancy between the actual knowledge and skills of graduates and the content of educational standards. The study particularly noted a lack of professional knowledge and skills of faculty and instructors in industrial training, which would contribute toward satisfying current employer demands.

The survey revealed the following causes for the poor practical skills demonstrated by graduates:

- Poor material and technical basis of education institutions, especially in the regions, i.e., lack of equipment for making patterns, templates, manufacturing apparel (fabrics, accessories, threads etc.) in education institutions. Sometimes, companies are giving the leftover fabrics and accessories to the schools.
- Lack of computer-aided design software in the majority of education institutions.
- Shortage of textbooks / educational literature in institutes. In majority of vocational schools students are taught by using very old textbooks, printed in the soviet time, and therefore students very often use lecture notes. There is no textbooks and study guides in Kyrgyz language (many students from the rural regions have poor command of Russian).

Presentation of the Recommendations of the Study of the Demand and Supply of Value Chain Skills *(Work Plan Human Capital, Activity 1)*

On April 28 and 29, BGI presented findings from its study on the size and nature of demand for workforce skills in the Kyrgyz apparel and tourism sectors and the degree to which universities and vocational schools are able to meet these needs. The Kyrgyz consulting and research firm, M-Vector, which BGI selected to conduct the study, outlined its conclusions in two different presentations to stakeholders of both sectors that took place on consecutive days. BGI's study was the first large-scale research of the workforce skills demanded by firms in the apparel and tourism sectors. The results of the study were based on interviews with roughly 800 managers and employees of firms and more than 70 managers and instructors of educational institutions.

In connection with these presentations, BGI also invited providers of education and training to exhibit their services to participants during coffee breaks before and after the event programs. As many as 25 universities, vocational schools and training institutions offered exhibits over the two-day period, the first day featuring tourism sector curricula and the following day that for apparel design and production. The exhibition provided an opportunity for private firms to interact with institutions to initiate contact between educational providers and their ultimate private sector clients.

BGI is employing the results of the study to develop its plans for strengthening the knowledge and skills of Kyrgyzstan's future workers as well as improving access to education and training for employers and workers in these sectors.

New BGI Initiatives Planned for Q3 2015

Development of a Scorecard for Measuring Improvements in HICD *(BGI Contract, Business Environment, Activity 1)*

In preparation for implementing BGI's AMEP, the project will develop a scorecard for measuring increases in institutional capacity for our HICD counterpart agencies. Based on maturity model tools developed by Deloitte, BGI will develop a customized tool, conduct tests of counterpart institutions, and create baseline assessments of the Ministry of Economy, the State Geology Agency, and the Tourism Department at the Ministry of Culture, Information and Tourism. The tool will be developed in the third quarter, and baselines collected for reporting in BGI's First Year Annual Report in October.

Launch Training Program to Improve Analytical Skills *(BGI Work Plan, Human Capital, Activity 3)*

Based on BGI's experience in working with consulting firms, business associations, NGOs and individual consultants in providing contracted technical assistance services, BGI has identified that lack of analytical skills and critical thinking appears to be a challenge that impedes organizations from providing the level of quality that BGI would prefer to obtain. This is also true among the many government counterparts with whom BGI works in implementing our assistance program. While, over the past four years, BGI/REFORMA has seen visible progress in areas such as proposal writing, project management, use of tools and methodologies, compilation of raw data, and other skills, the quality of reports produced based on research and an assessment or various studies do not reflect highly developed analytical skills. There is a significant gap of knowledge in their ability to identify trends, cause and effect relationships, determine justifiable solutions, and prioritize recommendations for further actions.

Consequently, BGI would like to engage a consulting firm, business school or business association from the Russian Federation or more advanced CIS countries to submit competitive proposals to design a training program to be delivered over a period of six to nine months to a combination of approximately 20 local consultants and government mid-level counterparts to improve their analytical and critical thinking skills. BGI would like to issue this solicitation in the third quarter of 2015, to launch the program prior to the end of 2015. BGI will solicit a cost-share contribution from all participants other than government counterparts for participation in the program. The training program will take place in

different modules and focus on the development of practical analytical skills, with periodic assignments that relate to current consulting or analytical work. The expected duration of each module is three to five days.

Launch Training to support Project Management Professional (PMP) Certification (*BGI Work Plan, Human Capital, Activity 3*)

Improving the capacity of local management consultants is one of the objectives of the BGI project. Among the many skills that BGI has noted could be improved are those for managing the delivery of consulting projects. BGI views that they could significantly benefit from participating in training that would improve their project management skills.

Internationally, management consultants have increasingly become certified Project Management Professionals (PMP). The PMP is a professional designation that has been developed by the Project Management Institute, which operates chapters in more than 80 countries. Russia, Ukraine and Lithuania are those countries of the former Soviet Union who operate PMI chapters. These chapters have developed certified instructors for preparing consultants to take the certification examination and have translated official PMI training manuals into the Russian language.

BGI proposes to engage a certified Russian-speaking instructor from one of these chapters to conduct the five-day PMP training in the Kyrgyz Republic to consultants that BGI either has or would plan to engage to manage technical assistance delivery projects. We propose to cost-share in the delivery of this training and, for those who want to continue to be certified, partial assistance in taking the certification exam. Given the high cost of certification (nearly \$1,000 for three years) and its potential lack of sustainability, however, BGI's goal is less to have consultants certified than to get them trained on international practices in project management by certified Russian-speaking instructors using high-quality translated materials. BGI has determined that this is by far a more cost-effective method of providing project management training than by engaging experts to develop the materials itself. BGI proposes to conduct a one-week pilot training course in the fourth quarter of 2015 for 20 participants (five of which will be BGI staff). If successful, BGI will consider providing additional training courses, as well as assist those consultants and staff willing to share the cost in international certification.

5. Progress of Activities for Improving the Business Environment

Tax Policy and Administration

BGI's Activities in Q2 2015

Simplified VAT Administration System (*BGI Work Plan, Tax Administration, Activity 1*)

On May 25, the Government approved BGI-sponsored Tax Code amendments that would significantly improve VAT administrative processes and reduce many burdens for taxpayers. Prior to the June 30 legislative recess, Parliament approved the first reading of the proposed VAT amendments. Nevertheless, there was insufficient time to obtain full legislative approval before the break, despite significant support for its provisions.

Despite the delay in passing reform legislation, the STS determined to make changes in business processes even before legislation is adopted, particularly since the Eurasian Economic Union (EEC) requires that the STS begin collecting VAT for trade transactions that were previously collected by the State Customs Service (SCS).

Consequently, BGI subcontractor, MF Consulting, conducted a series of training seminars in May and June for STS officials throughout the Kyrgyz Republic. Roughly 170 tax inspectors participated in training that addressed administrative changes reflected in the proposed VAT amendments as well as those dictated by the EEC.

MF Consulting is also producing a training video for the STS to instruct inspectors nationwide and a brochure that answers taxpayer questions on the new VAT procedures. The video consists of three modules: (1) Basic requirements and relationships tax authorities and taxpayers in the EEU; (2) Changes in the administration of VAT that will result from enactment of the draft law approved by the May 25th Government Resolution № 318; and (3) General business processes for tax officers when working with taxpayers on VAT administration. Additionally, MF Consulting prepared a Question and Answers Booklet on EEU taxation issues, including processes for collecting VAT from importers and exporters, and a VAT Administration Manual for tax authorities.

The Government is hopeful that the amendments will pass at an extraordinary session of Parliament at the end of July because changes in VAT procedures are expected to take effect as of January 2016. Proposed provisions to the new legislation include greater State Tax Service (STS) scrutiny of firms upon VAT registration to prevent falsified VAT refund applications. The amendments streamline VAT crediting and refund procedures that allow conscientious taxpayers to reduce time and effort in claiming VAT overpayments. The legislation also replaces the highly burdensome process of obtaining VAT paper invoice forms by assigning electronically generated invoice numbers.

Once Parliament passes VAT reform legislation, BGI will continue to help the STS implement process changes that will significantly simplify VAT administration, including assistance in securing electronic signatures from taxpayers who must begin to submit VAT reports through the internet. BGI will also monitor the impact of administrative improvements by surveying VAT payers.

Study of the Elasticity of Social Fund Contributions (*BGI Work Plan, Tax Administration, Activity 3*)

In May, BGI launched a study to support a request of the Secretariat of the Business Development and Investment Council to assess the attitudes of business owners and entrepreneurs toward Social Fund insurance rates. BGI and the Secretariat selected two organizations to complete the study, Siar Research and Consulting and Promotank.

The purpose of the study is to determine if reducing the rate of mandatory social insurance payments will motivate firms to increase the number of formally registered workers, thereby reducing the level of activity in the shadow economy. The combined employer and employee contribution rate for social insurance is 27.25 percent, which the business community deems excessively high, particularly relative to benefits provided.

Additionally, the study seeks to find ways to spread the burden of social contributions more equitably across the economy. The Social Fund provides benefits to many entrepreneurs and farmers who never contribute to the system, placing payment liabilities almost entirely on businesses that are fully operating in the formal economy.

The Secretariat designed the study to survey 1,200 businesses, individual entrepreneurs and farm entities and to build a macroeconomic model to analyze the sensitivity of responses to payment rates. Based on this analysis, the model will help to determine if reducing the rate would ultimately increase Social Fund revenue collection. Increasing the collection rate for social insurance payments would reduce pressure on the national budget to fund pension benefits that currently comprise 12.5 percent of the entire budget.

Siar Research will conduct the business survey and Promotank will build and analyze the results of the macroeconomic model and, with Siar, make recommendations to the Business Development and Investment Council for Government consideration. BGI expects to complete the survey by the end of August and begin modeling the sensitivity of responses in September. BGI and the Secretariat plan to present the results of the study to public and private stakeholders in November.

Capacity Development for Tax Officials on the Declaration Forms (*BGI Work Plan, Tax Administration, Activity 2*)

BGI continues supporting the STS in its work on the Uniform Tax Declaration (UTD). Following a series of 1-day training workshops for tax officers in the first quarter of 2015, in April BGI's subcontractor, the Chamber of Tax Consultants (CTC), conducted a 5-day, in-depth training-of-trainers for 28 officers of the State Tax Service. Four tax officers from each oblast were selected as future trainers and points-of-contact to provide advice and consulting to taxpayers on issues related to completion of the UTD. Tax officers were also given a master class on practical skills of how to use internet resources. Tax officers were trained on how to post information on social networks, respond to online questions, and monitor online forums to assess public feedback on introduction of the universal declaration.

In addition, the CTC developed a new simplified UTD form for individuals who do not have taxable income, as well as procedures for completing the declaration form for this category of individuals. Also, the CTC finalized the list of documents to be submitted for additional tax deductions. The CTC made editorial changes to UTD forms and drafted the appropriate amendments and additions to procedures for filling out UTD forms for all categories of taxpayers. The CTC also improved the REFORMA-supported electronic calculator on the STS's website, declaracia.kg.

Ministry of Economy Adoption of the Fiscal Policy Concept for 2015-2020 (*BGI Work Plan, Tax Administration, Activity 3*)

On June 12, the Ministry of Economy posted the draft Fiscal Policy Concept for public discussion. BGI has been supporting the Ministry in the development of the draft Fiscal Policy Concept for 2015-2020 and the Action Plan that identifies existing challenges and recommends government policy priorities regarding taxes, social contributions and mandatory non-tax payments. The earlier national Midterm Strategy for Tax Policy covered the period of 2006-2008. Since adoption of the Tax Code in 2009, no such critical strategic documents were developed in the fiscal policy field.

The approval of the proposed Concept and the Action by the Government is expected in early July, and its adoption will become an important step for the Government and will help all stakeholders to pursue the consistent fiscal policy during the upcoming five years.

Results Survey of the Tax Declaration Campaign (*BGI Work Plan, Tax Administration, Activity 2*)

In June, BGI selected ISR Consult to conduct a nationwide survey to assess taxpayer awareness of uniform tax declaration requirements and those for universal tax declaration that will take effect in 2016. In 2013 and 2014 REFORMA completed two waves of similar surveys to measure awareness of these requirements. ISR Consult will conduct focus groups in Bishkek, Tokmok, Talas, Naryn, Cholpon-Ata, Osh, Jalal-Abad and Batken, and interview 1,200 respondents in the same localities as previous surveys, based on a representative sample of taxpayers. BGI will use the results of this survey to report the impact of the public education campaign in our Activity Monitoring and Evaluation Plan (AMEP) reporting in October.

Passage of the Law to Simplify the Registration and Liquidation Procedures for Businesses (*BGI Work Plan, Tax Administration, Activity 5*)

On June 1, the President signed the law "On Amendments and Additions to Certain Legislative Acts of the KR" to simplify the registration and liquidation procedures for businesses. Passed by Parliament on April 23, the law was developed by Kalikova & Associates under a grant issued by the REFORMA Project in April 2014. The law simplifies the registration and liquidation procedures through amendments to the Tax Code, Civil Code, Law on State Registration of Businesses, the Law on Accounting and others. The law reduces the list of necessary documents, eliminates duplicative functions

performed by various government bodies, reduces the timeline for review of liquidation documents, establishes a clear timeline for conducting non-scheduled tax audits during the liquidation process, and sets a timeline for conducting inspections by the Social Fund during liquidation, thus removing burdensome administrative barriers for businesses.

For the registration of individual entrepreneurs, the law transfers their business registration from the National Statistics Committee to the State Tax Service. The state registration will be performed along with the tax registration by tax service bodies within 5 working days at either the place of their residence/passport registration or place of their business operations.

To provide assistance in implementation of the registration part of the approved law, BGI announced a tender for the provision of legal and methodological assistance to the STS to help it introduce new procedures of state registration of individual entrepreneurs to be performed by the STS from January 1, 2016.

New BGI Initiatives Planned for Q3 2015

Transferring Registration of Individual Entrepreneurs to the STS (*BGI Work Plan, Tax Administration, Activity 5*)

To implement simplification procedures for the registration of individual entrepreneurs, the STS requested that BGI assist in drafting the legal framework to transfer these processes to the STS and to automate registration through the development a separate software module for its tax management system. The STS has also asked BGI to provide training to STS staff and conduct a public education campaign about the new procedure. BGI has issued a competitive local tender to pursue these activities and will review proposals and select a winner in July.

Implementing Electronic Signature Security for VAT Administration (*BGI Work Plan, Tax Administration, Activity 1*)

New VAT processes will require mandatory electronic filing of reports and expanded access for taxpayers to the VAT payers' database. In June, BGI issued a competitive tender to select an IT firm to support the STS in creating software to certify digital signatures for electronic tax reporting, including VAT, thus streamlining the tax filing process and eliminating taxpayer burdens currently associated with registering and obtaining e-keys from an intermediary firm. The developed software will allow the STS to authorize taxpayers' digital signatures with substantially less cost and difficulty through the intermediary. BGI is currently working with the STS to finalize the firm selection.

Legal and Regulatory Framework for Business Licensing and Inspections

BGI's Activities in Q2 2015

Optimizing the Conduct of Environmental and Technical Safety Inspections (*BGI Work Plan, Business Regulation, Activity 1*)

In March 2015, BGI held a tender to subcontract a local firm to revise 60 laws and regulations that were drafted under the REFORMA Project to reflect changes caused by the Kyrgyz Republic's accession to the European Economic Union (EEU), and to draft two laws on ecological safety and radiological safety to close the legal gap caused by the revocation of all technical regulations following EEU accession. BGI awarded the contract to EcoPartner, the subcontractor that had drafted the original revisions, in consortium with the public fund, Independent Ecological Expertise.

In addition to this work, the firm will conduct training on two new inspections methodologies for both inspectors and businesses that EcoPartner developed under REFORMA, one methodology for

conducting ecological and technical safety inspections in general and the other for taking samples of water, air and soil for laboratory testing. The last stage will be to prepare and submit amendments to the law on inspections and accompanying documentation to the Ministry of Economy and provide assistance during the review and approval process by the Kyrgyz Government and Parliament.

In the meantime, in early June, the Finnish Environmental Institute (SYKE), as part of a project with the Kyrgyz State Agency for Environment Protection to measure the water quality of Lake Issyk-Kul, took samples from 17 sites around the lake using the proposed sampling methodology. In addition to finding the water quality to be satisfactory, the project found that the methodology “is in line with state standards.”

The sampling methodology “covers the whole chain of sampling procedures in detail that, according to best international practices, is essential for...proper analyses and increasing the performance of laboratories responsible for conducting such analyses,” the Finnish-Kyrgyz Water/Issyk-Kul Project concluded. Project experts recommended that the Government approve the proposed methodology

The Kadamjai Center for Disease Prevention and State Sanitation-Epidemiological Oversight under the Health Ministry supported the above conclusion, which also tested the new methodology to measure the level of antimony, mercury and arsenic in the air, soil and water of the Chauvai settlement in Batken oblast.

On June 30, the consortium presented the two methodologies to 48 officials from the State Inspectorate for Ecology and Technical Safety and the State Agency for Environmental Protection. The new methodologies received positive feedback from participants as did a presentation on four revised checklists for industrial safety and mining oversight, ecological safety, fire safety, and labor safety that the consortium presented on June 18. These four checklists were revised to reflect new requirements imposed by the government to introduce the international system for classification and labeling of hazardous chemical substances.

Reforms in Business Licensing and Permitting (*BGI Work Plan Business Regulations, Activity 2*)

The REFORMA Project, in drafting the regulations to support the Law on the Licensing and Permitting System, had identified numerous ways in which the Law must be amended to ensure its smooth implementation with the regulations, which were well vetted by both issuing agencies and the business community. Consequently, BGI has continued to support the Ministry of Economy in drafting amendments to the Law to ensure harmonization.

In the second quarter, BGI presented the draft amendments to the Ministry of Economy and the Government during a series of 10 meetings and discussions. New provisions propose to cancel 17 types of business activity that are not supposed to be licensed under the law. They introduce the use of licensing checklists, propose to cancel the rights of 23 licensing government bodies to collect fines from licensees, and rescind the ability of licensing agencies to suspend licenses, which will help to reduce corruption in business licensing and permitting. Under the proposed amendments, licenses can be suspended only through court decision. The Ministry of Economy also proposed that all business licenses be issued free of charge, except for those licensing limited resources.

BGI also made a significant number of editorial changes to the Law and introduced a number of previously undefined terminologies. The proposed amendments will resolve the problem of sublicensing by introducing a clear definition of works and services. The amendments introduce new terms, such as cancellation of licenses, licensing requirements, licensing fees, an electronic system of license issuance, and terms and definitions previously absent from the Law. The amendments were posted to the Government’s website on April 20 for public discussion.

On May 18, Prime Minister Sariev sent the proposed amendments for review and approval to the 26 license issuing government bodies. Eleven licensors opposed some provisions of the law, which were

reflected in the matrix of disagreements. They wanted to cancel the provision that grants licenses for unlimited terms, preserve the authority to annul licenses and permits, retain the number of licenses they currently issue, and, overall, remove their agency/ministry from jurisdiction of the Law. The remaining 15 government bodies agreed with the proposed amendments, creating a majority that allowed the Government to accept the proposed amendments and submit them to the Parliament. As part of the review process, the BGI team conducted 36 meetings with the participation of 117 government officials to discuss the proposed amendments.

The unresolved disputes, however, compelled Prime Minister Sariev on June 23 to recirculate the draft amendments to licensing agencies and the Ministries of Justice and Finance to undergo a new round of approvals. As of the end of the quarter, the BGI team is collecting responses from agencies and discussing comments with the participation of Vice Prime Minister Dil and Minister of Economy Pankratov. During the third quarter, BGI will continue to provide legal and consultative support to the Ministry of Economy throughout the review and approval process. Prime Minister Sariev expects to send the amendments to Parliament for adoption in September.

When the Government approves the amendments, BGI will undertake training for both licensing issuing agency personnel and businesses to ensure the smooth implementation of the Law and licensing regulations.

New BGI Initiatives Planned for Q3 2015

Pilot for Automated Issuance of Business Licenses (*BGI Work Plan, Business Regulations, Activity 4*)

The Law on the Licensing and Permitting System of the Kyrgyz Republic, adopted in October 2013, included a provision for the automated application for and issuance of business licenses. To implement this provision, the Ministry of Economy asked BGI to support a pilot program for automating the issuance of business licenses, similar to the automated issuance of import and export licenses by the Ministry's Tulpar system. The Ministry of Education has already expressed interest in being a counterpart agency for conducting the pilot. BGI staff, however, wants to undertake an informal survey of key trading clients of the Tulpar system to better assess customer satisfaction with the system as a proxy to determine whether there would be real demand by applicants of business licenses for an automated license issuance process. BGI will undertake this informal survey of roughly 8-10 firms in the third quarter and determine the parameters of the project should BGI seek to proceed.

Access to Finance

BGI's Activities in Q2 2015

Study on the Leasing Environment in the Kyrgyz Republic (*BGI Work Plan Access to Finance, Activity 2*)

Although the Kyrgyz Republic introduced leasing legislation more than 10 years ago, double taxation, lack of long-term bank funding, and costly mandatory insurance for leased equipment has limited its widespread use in equipment financing. In 2012, however, the government adopted changes to legislation that provides favorable tax treatment of equipment leases. While these changes stimulated growth in the leasing industry, persistent obstacles have restrained extensive use of the instrument.

In April, BGI selected ISR Consult and the Union of Kyrgyz Banks to undertake a study of the current environment for leasing and to investigate remaining causes of constraints. The study will review the legal framework and local practices and experiences in using leasing as a financing mechanism for private sector capital equipment investment. The team will identify remaining constraints, particularly in the implementation of tax and customs regulations. The study will also analyze the leasing portfolios of banks, leasing companies and non-bank financial institutions and conduct in-depth interviews and focus

groups with lessors and lessees to understand how successful leases have been structured, why these particular structures work, and what mechanisms could be introduced to make them work better.

The final report will include recommendations for how to strengthen the business environment for leasing, both in terms of the quality of the legal framework as well as in their implementation. The BGI team will present all findings to stakeholders at a round table planned for September and begin to implement recommendations for the further development and expansion of leasing in Kyrgyzstan.

Support to the Annual Bishkek International Finance Forum (BIFF) (*BGI Work Plan, Access to Finance, Activity 1*)

On May 22, the Union of Kyrgyz Banks hosted its annual Bishkek International Financial Forum (BIFF) with the participation of representatives of Kyrgyz government agencies, banks, non-bank financial institutions, international institutions, and the business community. Vice Prime Minister Valeriy Dil, was the keynote speaker, followed by Ms. Lada Orozbaeva, Deputy Chairperson of the National Bank, BGI COR Paul Hamlin, IFC Country Officer Martin Naegle, and others. More than 200 stakeholders from the Kyrgyz Republic and neighboring countries attended the one-day forum at which participants discussed challenges in financing, leasing, insurance and other access to capital issues.

After the morning plenary discussion, the forum offered break-out sessions that brought forth perspectives in introducing new financial products, such as purchase order financing (POF), leasing, and new methods of electronic product delivery, including digital payments through mobile phones. Another session examined how to improve the financial literacy of consumers and clients. BGI hosted the session on POF that featured a presentation by BGI financial advisor Richard Currie. Mr. Currie shared his experience in the successful implementation of the product in Azerbaijan, Armenia, Moldova, Macedonia and Kosovo, through both banks and specialized non-bank financial institutions. During his presentation, he also familiarized participants with the results of a USAID-sponsored POF pilot loan program in Kyrgyzstan in 2012-2013. In this pilot, six financial institutions participated in POF credit training, and four partner banks issued nine loans totaling US \$4 million.

Changes in National Bank Prudential Regulations (*BGI Work Plan, Access to Finance, Activity 1*)

In June, the board of the National Bank of the Kyrgyz Republic (NBK) approved changes to its prudential regulations on credit risk management, asset classification and loan loss reserve requirements to discontinue the use of real estate to collateralize short-term working capital loans. Begun under USAID's Local Development Program (LDP), BGI revived the project in January to help the NBK introduce regulatory changes that would enable banks to use purchase orders or sales contracts to back-stop loans of up to one year. This promotes greater access to finance for firms lacking real property to obtain working capital loans. BGI will now begin to work with partner banks to help them roll out the purchase order finance (POF) product to small and medium enterprises, particularly those in the apparel, tourism and construction materials sectors.

New BGI Initiatives Planned for Q3 2015

Reintroduction of the Purchase Order Finance (POF) Product (*BGI Work Plan, Access to Finance, Activity 1*)

With the National Bank's approved changes to its prudential regulations on credit risk management, asset classification and loan loss reserve requirements that allow banks to discontinue the use of real estate to collateralize short-term working capital loans, BGI is poised to reintroduce the POF loan product. The BGI team sent an introductory letter to introduce the BGI POF loan program to current and anticipated partner banks.

In July, Access to Finance Advisor Richard Currie, will work with BGI staff to engage key banks and microfinance institutions into the program by signing Letters of Intent (LOI), which will outline their

roles and responsibilities in the BGI POF loan program. In September, the team will roll out the POF loan program with partner banks, including conducting workshops for POF lending, as needed, and setting benchmarks and loan targets and benchmarks with participating financial institutions.

Civil Aviation Safety

BGI's Activities in Q2 2015

Work for Passage of New Air Code (*BGI Work Plan Civil Aviation, Activity 1*)

On June 29, the Parliament of the Kyrgyz Republic passed the new Air Code that now brings Kyrgyz civil aviation primary legislation in line with international standards. The BGI team, including Kalikova & Associates, the Civil Aviation Agency (CAA), and the Association of Civil Aviation Enterprises, worked diligently with members of the Government and the Parliament to advocate its passage. The Cabinet of Ministers had previously endorsed the legislation unanimously on June 12. Mr. Jusupali Isaev, Chairman of the Parliamentary Committee on Transport, Communication, Architecture and Construction, who presented the legislation to the General Assembly, emphasized that the Committee and all five Parliamentary factions approved the draft Air Code. The Air Code passed by a vote of 106-2 and the draft Law of the Kyrgyz Republic, "On Enactment of the Air Code of the Kyrgyz Republic," passed by a vote of 107-1. Over the coming year, BGI will help the CAA harmonize international aviation rules with Kyrgyz legislation, implement effective document management systems and adjust its organizational structure and qualifications for staff positions to meet international standards. To the degree possible, BGI will expedite this work to be well-positioned for the International Civil Aviation Organization (ICAO) audit in January 2016. A strong showing in the audit, scheduled for January 2016, would bolster the Kyrgyz Republic's case for lifting a ban on flights to the European Union.

New BGI Initiatives Planned for Q3 2015

Harmonize ICAO Aviation Rules with Kyrgyz Legislation (*BGI Work Plan Civil Aviation, Activity 3*)

Upon obtaining approval of the new Air Code, BGI will begin to bring ICAO's aviation rules (nineteen annexes of the Chicago Convention) into compliance with the new Kyrgyz Air Code and ensure that they are in line with EU norms and standards, including harmonization with both Kyrgyz and European legislation. BGI will issue a subcontract to the Association of Civil Aviation Enterprises to draft the 11 most critical rules prior to the planned ICAO Audit in January. The Association will engage the services of Kalikova & Associates and Integra Consulting, all of which were the primary authors and supporters of the new Air Code of the Kyrgyz Republic. As with the drafting of the Air Code, the CAA will engage the BGI team, as well as other stakeholders, by creating working groups that will undertake aligning international rules with Kyrgyz legislation. BGI ultimately intends to draft all 19 ICAO Rules under the project. To the degree possible, BGI will help the CAA develop internal guidelines, tools, handbooks, manuals, instructions and other materials for internal use by Agency staff that will govern the implementation of the Air Code and ICAO aviation rules.

Draft Provision for the New Organizational Structure of the CAA (*BGI Work Plan, Civil Aviation, Activity 3*)

BGI will issue a competitive tender in July to develop a draft Provision for the new organizational structure of the Agency to strengthen its safety oversight capacity and rectify the findings of the ICAO Universal Safety Oversight Audit in 2009 for submission to the Government. Based on consulting firm Integra's recommendations and approval of the Government for the draft Provision on the mechanism of self-financing of the Agency, the new provision will include qualification requirements for key personnel in the Agency, a salary strategy, and a structure to optimize the availability of qualified staff to carry out required safety oversight functions.

Document Management System Software Development, Archive Digitization and Hardware Procurement (*BGI Work Plan Civil Aviation, Activity 5*)

In April 2014, ICAO's inspectors recommended that the CAA establish and implement a documentation control system to ensure that all necessary documentation is available to CAA staff, including ICAO documents that are not published in the ICAO-NET website. In March, BGI contracted an IT expert to carry out an assessment of the Agency's IT infrastructure and its current level of compliance with ICAO requirements and make recommendations on how to harmonize them with these requirements. The IT expert completed the assignment in May, which included a proposed scope of work for an IT company to create an online data base and document management system for all aviation information stored by the CAA and required by ICAO to be available to safety inspections. To ensure that the system specifications are appropriate for the CAA's needs, BGI has hired a consultant to review the scope provided by the assessment consultant. This consultant is expected to complete his evaluation of the scope of work in August.

To assist in implementing this data management system, the CAA also needs to digitize all of its paper-based archives, which is estimated to consist of 65,000 pages. BGI will issue a separate scope of work to provide services for scanning (digitization), indexing, and loading of the archived CAA's documents in July. This work can be done independently of the development of the data management system provided that the files are properly scanned, catalogued and stored for uploading into the data management system. In July, BGI will also issue a tender for the procurement of hardware and basic business software to ensure that the CAA has adequate equipment to accommodate the data management system.

Bishkek Aviation Safety Conference (BASC) (*BGI Work Plan, Civil Aviation, Activity 3*)

BGI plans to provide partial support for the conduct of the BASC in August. The CAA has been organizing the annual conference for civil aviation sector of the Central Asian countries since 2008 to strengthen communication and coordination between the countries, some of which are on the EU's operating ban list and are taking measures to get the operating ban lifted. Last year, the REFORMA Project also provided partial support to the conference under a grant.

The conference is attended by the representatives of the International Civil Aviation Organization (ICAO), International Air Transport Association (IATA), Interstate Aviation Committee (IAC) from Moscow, TRACEKA (European Commission Civil Aviation Project), civil aviation agencies of Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Afghanistan and Turkmenistan. Representatives of airlines, airports, and air navigation providers of these countries also participate in this event.

The primary objectives of the conference are to: continue discussion of aviation safety issues with international consultants and experts and aviation authorities of different countries; strengthen communication and coordination between Central Asian countries and exchange knowledge and experience in enforcing air safety rules and requirements; and increase promotion of air safety by inviting international consultants and experts from ICAO, IATA and the Interstate Aviation Committee to participate.

This year BASC will focus on the flight safety and aviation security and implementation of ICAO standards and recommended practice in civil aviation. Key guests from international agencies and civil aviation agencies of non-Asian countries will make presentations on aviation safety and security.

Mining Policy and Capacity Development

BGI's Activities in Q2 2015

Public Awareness for Mining Sector Development (*BGI Work Plan, Mining Policy Activity 4*)

To increase public awareness of the benefits of supporting mining development and provisions of the REFORMA-sponsored Mining Development Strategy adopted by the Government in February, the Ministry of Economy asked for BGI's assistance. In June, BGI awarded a subcontract to the NGO, Nedra, to deliver eight regional seminars for local stakeholders, revise a brochure originally developed by REFORMA, and create a leaflet and poster providing information about the Mining Strategy. Nedra will also produce a video clip providing brief information about the mining industry, describing its role in economic development, and encouraging people to support creating a favorable environment for investment in the sector.

To implement the public education program, BGI hired the NGO, Nedra, to conduct a series of public seminars. Seminars and public meetings will take place with regional stakeholders across the country during July and August. Awareness-raising activities include discussions with local communities affected by mining exploration and development, with the participation of local and national policymakers and government officials.

Regional workshops such as these have proven to be effective in the past in disseminating information on new policy approaches and in building dialogue between local communities and government officials. By continuing to offer such a forum for discussion, government officials and policymakers will have an additional opportunity to learn more about issues of primary concern voiced by local communities.

Capacity Development Assistance to the State Geology Agency (*BGI Work Plan, Mining Policy Activity 7*)

During the past quarter, the Geology Agency launched a new electronic module as part of its automated geological management system that optimizes data and document management for all critical information required for overseeing the license rights of the Kyrgyz Republic's mineral resources.

While the system, developed under USAID's REFORMA Project, has helped the licensing department to manage documents related to administering licenses, the new module automates the decision-making activities undertaken by the licensing committee. The committee is the body that determines whether mining licenses should be granted, extended, suspended, or amended.

The new module enables the systematic entry of information to record the decisions of licensing committee meetings. It enables tracking of all license cases submitted to the Geology Agency and reviewed during the committee's meetings, the issues discussed, decisions made, the presence of committee members, and the outcomes of each committee vote.

To enable greater public transparency, BGI's development partner, Art-Pro, is creating an interface between the data base and the Geology agency website that will enable posting of updated results of licensing committee decisions. This will help mining companies to monitor the status of their licenses, reduce the number of calls to Agency staff, and offer local communities transparency in monitoring the status of mining licenses in their regions.

Parallel to this activity, the licensing committee drafted and approved a regulation on licensing cases that outlines required internal procedures, checklists, methods for information exchange among departments, archiving procedures, and other data management practices previously undocumented.

With the completion of this module, BGI's work with the data management system is nearly completed. BGI will continue to monitor the impact of the system on institutional performance while providing additional capacity development assistance to the Agency.

In a move to strengthen relationships with educational institutions, the Geology Agency and the Institute of Mining and Mining Technologies signed a Memorandum of Cooperation that creates student internship programs and the development and implementation of mutual innovation projects. The goal of the agreement is to improve the quality of education by exchanging experience and knowledge not only through internships but also through jointly sponsored seminars and conferences.

"Investing in human capital is crucial for the further development of the mining industry in the Kyrgyz Republic," said Geology Agency Director Duishenbek Zilaliev at the signing ceremony.

Upon signing the memorandum, the Agency approved a decree that creates a formal student internship program for an initial 10 students. Under staff supervision, interns in a previously conducted informal program helped the Agency to populate the geological data management system by scanning 216 licenses cases.

On June 4, the Geology Agency also organized its second *Open Door Event* for 15 third- and fourth-year students from the Institute that gave students to opportunity to become more familiar with the work of the various departments of the Geology Agency.

New BGI Initiatives Planned for Q3 2015

National Conference on Building Partnerships and Conflict Mitigation in Osh (*BGI Work Plan, Mining Policy Activity 3*)

The State Geology Agency requested BGI's support for conducting a conflict mitigation conference in Osh. The first such conference was held in October 2014 in Issyk-Kul with support of USAID and became the first platform for dialogue for government authorities, mining companies and local communities. Based on the positive feedback from this conference, the State Geology Agency wanted to offer a similar opportunity for dialogue in the South. Originally, the conference was planned for late March, then it was moved to April, and it has now been postponed again. BGI will co-sponsor the conference with GIZ. Many members of Government, Parliament, and local self-government will participate, as well as representatives of mining companies, donor and non-government organizations and mining firms.

Study for Introducing a Local Content Requirement for Mining Companies. (*BGI Work Plan, Mining Policy, Activity 6*)

During the third quarter, BGI will determine whether to pursue a project to assess the possibility of introducing a local content requirement for mining companies to increase the ability of Kyrgyz firms to participate in the procurement of goods and services by mining development and exploration companies. The study will identify which possible goods and services would be available for procurement by these firms and determine the possible incentives and restrictions which could be introduced to encourage greater procurement of local goods and services, based on international practices. BGI will determine whether the timing is appropriate to launch the study to take place in the fourth quarter of 2015.

World Trade Organization (WTO) Commitments

BGI's Activities in Q2 2015

Assistance with WTO Commitments (*BGI Work Plan, Business Regulation, Activity 4*)

BGI hired Mr. Muktar Jumaliev to provide consultative assistance to the Ministry of Economy to reconcile commitments under Kyrgyzstan's WTO membership with those of the EEU. BGI's expert

worked with the Inter-ministerial Working Group under the Government and the MoE to provide advice on resolving services sector issues with the EEU Secretariat.

The BGI expert held a series of meetings with MoE specialists to explain the WTO obligations of the Kyrgyz Republic and the corresponding provisions of the General Agreement in Trade of Services (GATS) and helped the Government of the Kyrgyz Republic to develop its negotiating position on services, particularly on legal services, services in the production of alcoholic beverages, and postal services.

The consultant also worked with the MoE's WTO Department to analyze the Kyrgyz Republic's obligations in the area of sanitary and phytosanitary measures under WTO; help to formulate Kyrgyzstan's position for the WTO Ministerial Conference; review EEU documents in the services sector and make recommendations for the Kyrgyz Republic's renegotiating position; prepare to notify the WTO on changes in Kyrgyzstan's foreign trade regime; and collect information about the outstanding disputes in trading spirits and alcoholic beverages under WTO. In August and September, the BGI expert will develop the guidelines for the Government for its WTO negotiations and notification procedures.

6. Grants Program Launch

With the July approval of Deloitte's Project Fund Manual, BGI will now launch its grants program in September. BGI will presents is Annual Program Statement (APS) for its grants program for USAID approval in August, prior to the project's grants launch. As part of this launch, BGI will conduct a road show throughout the Kyrgyz Republic to inform and train potential grantees on application and award procedures.

7. Local Subcontracts and Consultants

The following is a list of local subcontracts and awards under the BGI Project.

BGI Local Subcontracting Awards and History – Q2 2015

	<i>Subcontracting Activity</i>	<i>Subcontractor(s)</i>	<i>Award Date</i>	<i>Period of Perform.</i>	<i>Contract Value</i>	<i>Status</i>
1	Conducting Textile/Apparel Value Chain Study	Central Asia International Consulting (CAIC)	Dec 2014	4 months	\$61,096	Completed
2	Conducting Assessment of Demand and Supply of Skills in BGI Value Chains	M-Vector	Dec 2014	4 months	\$56,411	Completed
3	Promoting Passage of the New Air Code	Kalikova & Associates	Dec 2014	6 months	\$38,329	Completed
4	Implementing VAT Administrative Reform	MF Consulting	Dec 2014	6 months	\$72,460	Ongoing
5	Providing Services for Entering the Russian Apparel Market for Kyrgyz Apparel Producers	Fashion Consulting Group	Feb 2015	2 months	\$26,220	Completed
6	Promoting Tax Literacy to Prepare for the Introduction of Universal Tax Declaration	Chamber of Tax Consultants	Feb 2015	6 months	\$68,960	Completed
7	Conducting Construction Materials Value Chain Study	International Business Council	Feb 2015	4 months	\$56,436	Ongoing
8	Broadcasting Video and Audio Announcements on Universal Tax Declaration	Vzgrad.kg	Feb 2015	2 months	\$41,856	Completed
9	Providing Continued Capacity Developments for the State Geology Agency	Education and Career Foundation	Feb 2015	6 months	\$24,812	Ongoing
10	Legal Revision, Checklist Development and Training on New Inspections Methodologies	EcoPartner	Mar 2015	7 months	\$103,278	Ongoing
11	Study of the Market for Leasing in the Kyrgyz Republic (1)	Union of Kyrgyz Banks	Jun 2015	4 months	\$21,307	Initiated
12	Study of the Market for Leasing in the Kyrgyz Republic (2)	ISR Consult	Jun 2015	4 months	\$40,455	Initiated
13	Study of the Elasticity of Social Fund Contributions (1)	Promotank Consulting	Jun 2015	5 months	\$40,406	Initiated
14	Study of the Elasticity of Social Fund Contributions (2)	Siar Research	Jun 2015	5 months	\$54,200	Initiated
15	Launching Public Education Campaign for Mining Strategy	Nedra Public Fund	Jun 2015	3 months	\$53,640	Initiated
16	Conducting Results Survey of the Tax Declaration Campaign	ISR Consult	Jun 2015	2 months	\$25,685	Initiated
TOTAL SUBCONTRACTS AWARDED					\$785,551	

Anticipated BGI Local Subcontracting Awards – Q3 2015

	<i>Subcontracting Activity</i>	<i>Anticipated Tender Date</i>	<i>Anticipated Award Date</i>	<i>Target Period of Performance</i>	<i>Anticipated Subcontract Value</i>
17	Conducting Baseline Survey of Destination Management Sites	Jun 2015	Jul 2015	2 months	\$40,000
18	Implementing Provisions of the New Air Code	Jul 2015	Jul 2015	8 months	\$145,000
19	Implementing Electronic Signature Security for VAT Administration	Jun 2015	Aug 2015	4 months	\$70,000
20	Transferring Registration of Individual Entrepreneurs to the STS	Jun 2015	Jul 2015	6 months	\$50,000
21	Civil Aviation Data Management System for the CAA	Jul 2015	Aug 2015	8 months	\$100,000
22	Digitizing the CAA Archives	Jul 2015	Aug 2015	5 months	\$50,000
23	Bishkek Air Safety Conference	Jul 2015	Aug 2015	1 month	\$15,000
24	Conducting Study of the Turkish Outbound Tourism Market	Aug 2015	Sep 2015	3 months	\$50,000
25	Computer hardware and software procurement	Aug 2015	Oct 2015	5 months	\$100,000
26	Development of the CAA Regulation, Organization Structure and Mechanism of Financing as per the approved Air Code	Aug 2015	Sep 2015	2 months	\$30,000
27	BGI Website Creation	Aug 2015	Sep 2015	2 months	\$5,000
28	Training in Analytical Thinking	Sep 2015	Oct 2015	9 months	\$60,000
29	Preparation for PMP Certification	Sep 2015	Oct 2015	4 months	\$25,000
	TOTAL ANTICIPATED SUBCONTRACT VALUE FOR Q3 2015				\$740,000

BGI Independent Local Consultant Awards and History – Q2 2015

<i>Consulting Activity</i>	<i>Consultant</i>	<i>Award Date</i>	<i>Period of Perform.</i>	<i>Contract Value</i>	<i>Status</i>
Amending the Law on the Licensing System and Implementing Regulations	Nurgazy Zhokunov	Jan 2015	12 months	\$20,000	Ongoing
Assessing the IT Capabilities of the Civil Aviation Agency	Bolot Orozmatov	Mar 2015	9 months	\$10,000	Completed
Improving the Collection and Reporting of Tourism Statistics	Nurjan Toktogulova	Apr 2015	6 months	\$15,000	Ongoing
Design and Delivery of Business Plan Training and Evaluation of Apparel Project Applicants	Erkin Dzhamanbaev	May 2015	3 months	\$9,720	Ongoing
Assistance in Developing International Agreements for Trade in Services	Mukhtar Jumiliev	May 2015	4 months	\$16,800	Ongoing
Apparel Transactions and Tax Requirements and Make Recommendations for Bringing Apparel Firms into the Formal Business Sector	Maksim Smirnov	May 2015	4 months	\$12,720	Ongoing
TOTAL CONSULTANT CONTRACTS AWARDED				\$84,240	

BGI Anticipated Independent Local Consultant Awards – Q3 2015

<i>Consulting Activity</i>	<i>Anticipated Award Date</i>	<i>Target Period of Performance</i>	<i>Anticipated Contract Value</i>
None Identified for Q3 2015			
TOTAL CONSULTANT CONTRACTS AWARDED			

8. Financial Results

Budget Cost Elements	Budgeted Amount	Invocied Amount as of May 30, 2015	Accrual Amount as of June 30, 2015	Expended Amount	Remaining Budget to Complete
Labor	\$3,589,499.00	\$436,922.01	\$80,977.59	\$517,899.60	\$3,071,599.40
Total Other Direct Costs	\$5,652,519.00	\$846,277.25	\$148,935.32	\$995,212.56	\$4,657,306.44
PROJECT FUND					
Local Subcontractor	\$3,397,795.00	\$311,754.44	\$85,491.20	\$397,245.64	\$3,000,549.36
Grants	\$1,225,490.00	\$0.00	\$0.00	\$0.00	\$1,225,490.00
Indirect cost	\$5,348,954.00	\$688,969.86	\$79,476.45	\$768,446.31	\$4,580,507.69
Fixed Fee	\$858,738.00	\$153,084.00	\$19,136.00	\$172,220.00	\$686,518.00
Fixed fee on subs and grants	\$98,039.00	\$0.00		\$0.00	\$98,039.00
Total	\$20,171,034.00	\$2,437,007.56	\$414,016.56	\$2,851,024.12	\$17,320,009.89

9. Report Annexes

Annex A: Primary Events, Training, and Focus Group/Research Conducted

Annex B: Table of Deliverables

Annex A: Primary Events, Training, and Focus Group/Research Conducted

Primary Events, Training and Focus Group/Research Conducted (E=event, T=training, F=focus group)

Component		BGI Event	Men	Women	Total
Apparel	E	April 29, 2015: Apparel Value Chain Results and Next Steps	27	78	105
	T	May 13, 2015: Workshop on Business Plan Writing and Applications	6	27	33
	E	May 15, 2015: Results of Value Chain Analysis – Osh	9	37	46
	T	May 20, 2015: Workshop on Business Plan Writing and Applications	10	19	29
	T	May 27, 2015: Question and Answer Session on Business Plans and Applications	9	29	37
	T	June 4, 2015: Workshop on Innovation Center	9	12	21
Tourism	E	April 24, 2015: KATO Roundtable	26	21	47
Construction Materials	F	May 27, 2015: Construction Sector Economics and Strategy	8	0	8
	F	May 7, 2015: Workforce Development	7	0	7
	F	May 7, 2015: Workforce Development	8	3	11
	F	May 16, 2015: Construction Materials Production	6	0	6
	F	April 9, 2015: Government	8	0	8
	F	April 7, 2015: Government	7	0	7
	F	April 3, 2015: Construction Regulations/planning	7	0	7
	F	April 8, 2015: Education/Workforce	1	6	7
	E	May 28, 2015: Workshop CM Producers	5	0	5
	E	May 30, 2015: Workshop Construction Association JIA	7	0	7
Human Capital	E	April 28, 2015: Presentation of the Results of the Skill Gap Assessment in the Tourism Value Chain, Bishkek	29	43	72
	E	April 29, 2015 – Presentation of the Results of the Skill Gap Assessment and Value Chain Analysis in Apparel Sector, Bishkek	26	75	101
	E	May 15, 2015 – Presentation of the Results of the Skill Gap Assessment and Value Chain Analysis in Apparel Sector, Osh	9	37	46
	T	June 15-August 18, 2015: Startup Boot Camp Training in Market Research, Design, Promotion Techniques, Entrepreneurial Skills, Financial Planning, Product Development, Business Modelling, Bishkek	21	0	21
Tax Policy and Administration	T	May 20,21,22 2015 - Training for tax inspectors on VAT procedures in Bishkek	31	37	68
	T	June 15, 2015 - Training for tax inspectors on VAT procedures in Naryn	8	9	17
	T	June 16, 2015 - Training for tax inspectors on VAT procedures in Cholpon-Ata	10	10	20
	T	June 12, 2015 - Training for tax inspectors on VAT procedures in Talas	2	14	16
	T	June 8, 2015 - Training for tax inspectors on VAT procedures in Osh	2	29	31
	T	June 9, 2015 - Training for tax inspectors on VAT procedures in Djalal-Abad	2	15	17
Universal Declaration	T	April 13-17, 2015 – Training for Trainers on UTD, Bishkek	17	11	28
Business Licensing	E	Meetings of the Expert Committee to discuss comments and proposals of the licensing agencies to the proposed law on licensing and permitting system (Expert Committee was created through the Order of Minister of Economy Sariev as of 26.03.2015 №62)	9	5	14
	E	Presentation for Minister of Economy Sariev and MoE management on the licensing of the radio frequency sector by the State Communication Agency	17	9	26
	E	Presentation for Minister of Economy Sariev and MoE staff of the draft law on licensing and permitting system of the KR by the Expert Committee	11	6	17
	E	Presentation of the proposed law on licensing and permitting system of the KR to VPM Valeri Dil, members of the government, deputy ministers and heads of licensing agencies	39	16	55
	E	Presentation of the work on drafting of the law on licensing and permitting system of the KR to newly appointed Minister of Economy Oleg Pankratov	7	4	11
	E	Final Presentation of the draft Law on Making Amendments and Additions to Certain Legislative Acts of the Kyrgyz Republic at the government meeting chaired by newly appointed Prime Minister Temir Sariev	31	6	37
	E	A series of meetings and discussions with the representatives of the licensing agencies to discuss and agree on the provisions of the proposed amendments to the Law on Licensing and Permitting System of the KR	118	27	145
Inspections	E	Presentation of the Work on Optimization of Inspections to the MoE Staff and Deputy Minister Ibraev	5	4	9

Component		BGI Event	Men	Women	Total
	E	Presentation of the new Methodology for Sampling Water, Air and Soil to Measure the Level of Environmental Pollution at the round table at the State Technical and Ecological Safety Inspectorate	33	15	48
Mining	E	April 2, 2015: "Open Door Event at Geology Agency for Students from the Mining Institute and Mining Technologies", Bishkek	2	20	22
	T	April 9, 2015: "Training on License Case Description for students of the Institute of Mining and Mining Technologies", Bishkek	11	1	12
	T	June 4, 2015: "Effective Instruments of Project Management", Bishkek	11	5	16
			611	630	1,241

Annex B: Table of Deliverables

Component	Document	ENG	RUS	Publish
Apparel	Workshop materials s for May 13, 15, 20, 27, and June 4 events for front runners, leaders, innovation centers. (5)		✓	No
	Attendance sheets for April 29 event, May 13, May 15, May 20, May 27, and June 4 events (6)		✓	No
	Presentation materials for April 29 Apparel Value Chain events	✓	✓	Yes
	Apparel Value Chain Study		✓	Yes
Tourism	KATO Roundtable	✓	✓	No
	Winning Four Destination Proposals	✓	✓	No
	Diagnostic on the Collection of Tourism Statistics in the Kyrgyz Republic	✓	✓	Yes
Construction Materials	Stakeholder Database	✓		No
	Construction Materials VC Interim Study	✓		No*
	Construction Materials Attendance sheets for focus group discussions and workshops		✓	No
Human Capital	M-Vector Tourism Sector Skill Gap Assessment Report	✓	✓	Yes
	M-Vector Presentation of the Skill Gap Assessment Results in Tourism	✓	✓	Yes
	M-Vector Apparel Sector Skill Gap Assessment Report	✓	✓	Yes
	M-Vector Presentation of the Skill Gap Assessment Results in Apparel	✓	✓	Yes
Social Fund Study	Detail Action Plan SIAR	✓	✓	No
	Detail Action Plan Promotank	✓	✓	No
VAT Administration	Detailed Transportation Plan for training delivery		✓	No
	Presentation on new VAT administration procedures		✓	Yes
	List of participants May-June 2015 Trainings	✓	✓	No
	MF Consulting's Trainings Schedule		✓	No
Access to Finance	Access to Finance Revised First Year Implementation Plan	✓		No
	Richard P. Currie Exit Report for May 2015	✓		No
	Scope of Work (SoW) for Richard P. Currie – Follow up Project Activities under Access to Finance Component of USAID BGI Project	✓		No
	Agenda for Bishkek International Finance Forum (BIFF) in Bishkek on May 22, 2015	✓	✓	No
	Richard Currie Presentation on Purchase Order Finance (POF) at BIFF Forum	✓	✓	Yes
	Credit Analysis of the Counterparty in a POF transaction	✓	✓	Yes
	NBKR Approved Changes to the POF regulations	✓	✓	Yes
	Leasing Market Study Work Plan	✓	✓	
	Leasing Market Study Desk Research	✓	✓	No*
	Presentation of Desk Research Study for the Club of Private Investors on June 25, 2015		✓	No
	Methodology for Requesting Leasing Portfolio Information from Lessors	✓	✓	No
	Questionnaire for Requesting Leasing Portfolio Information from Lessors	✓	✓	No
Business Licensing	Draft Law on making Amendments and Additions to the Law on Licensing and Permitting System along with the required legal package including Draft Government Resolution, Justification Letter, RIA and a Comparative table		✓	Yes
	Draft Law on making Amendments and Additions to the Certain Legislative Acts of the KR (including the Law on Licensing and Permitting System) along with the required legal package including Draft Government Resolution, Justification Letter, RIA and a Comparative table		✓	Yes
Inspections	Draft Law on Radiation Safety along with the required legal package including Draft Government Resolution, Justification Letter, RIA and a Comparative table and the		✓	Yes

	Kyrgyz version of the whole package			
	Draft Law on Ecological Safety along with the required legal package including Draft Government Resolution, Justification Letter, RIA and a Comparative table, 5 special assessment conclusions, and the Kyrgyz version of the whole package		✓	Yes
	Revised Checklists for Industrial Safety and Mining Oversight; Ecological Safety, Fire Safety and Labor Protection.		✓	Yes
	Finalized Draft Methodology for Conducting Inspections of Businesses (Government Resolution # 533)		✓	Yes
	Finalized new Methodology for Sampling Water, Air and Soil to Measure the Level of Environmental Pollution		✓	Yes
Civil Aviation	Air Code Passed by Parliament	✓	✓	Yes
	Civil Aviation Agency IT Assessment	✓	✓	No
	Civil Aviation Agency Business Process Analysis	✓	✓	No
Mining	Geology Agency Decree on Internship		✓	No
	Data base on students		✓	No
	Regulation on Management of Licensing Case Files with signed Decree		✓	No
	List of scanned licenses by June 25		✓	No
	MOU between the Geology Agency and Institute for Mining and Mining Technologies		✓	No
	Regulation on Internship with signed Decree		✓	No
	List of Geology staff who attended training		✓	No
	Presentation delivered during a training on Project Management to Geology staff		✓	Yes
	Geology Agency Decree on Internship		✓	No

* BGI will publish the final version of the document.

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